

Remarks Prepared for Delivery

**Keynote Address of Ambassador Charlene Barshefsky
The Global Trading System
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Good morning. [Acknowledgments.]

All of us here today can be justly proud of the GATT's achievements over the past half century. The work of my predecessors and of this Administration has contributed to a progressively more liberal world trading environment for goods, services, and investment. An environment where world consumers have more choice, and therefore more freedom. An environment where human, financial, and natural resources are used more efficiently and productively with gains to all rather than a select few.

Over its existence, the GATT has successfully addressed increasingly complex restrictions to trade. Starting off with border measures such as tariffs and quotas; moving in the Tokyo Round to non tariff barriers; and in the Uruguay Round to include more fully agricultural trade, services, investment, intellectual property rights (IPR), and in so doing, to begin to address the trade impact of domestic regulations.

Our task for the future is of course broader than each of these parts, although even traditional barriers are still too high in many areas and must be reduced. As we move forward, we must fashion an international trading system that can accommodate the tremendous technological change that is sweeping the global economy. We are looking to foster a trading system that is transparent and genuinely pro-competitive. A trading system where bribery and corruption no longer sap economic vigor from economies. A trading system that develops effective instruments to address the social dimension of trade, including respect for workers and the environment. A trading system that recognizes the challenge of domestic regulation. A trading system that can accommodate proliferating regional trade agreements as well as transitional economic systems without sacrificing free-market principles.

And perhaps most importantly, a trading system that answers the concerns that trade is the enemy of jobs and high living standards. Misplaced though they are, these concerns have the very real potential of derailing future economic progress..

Contributions of the GATT System to World Economic Growth

Let me start by summarizing the contributions of the to world economic growth. The

standard portrayal of the economic achievements of the GATT is to describe steady progress in reducing global trade barriers, the rapid expansion of trade, and trade's contribution to post-War prosperity. While agreeing completely, I would like put the GATT's contribution in a broader context.

Immediately after the Second World War, many nations concentrated on the potential of markets to spin out of control and emphasized the superiority of alternative economic systems. It is remarkable today to recall that even in the late 1950s, when a Soviet Premier threatened to bury the U.S. in part because of the systemic preeminence of the Soviet economy, his threat was taken with the utmost seriousness.

One of the great issues of the post war period has in fact been the question of how governments create the best environment for allocating scarce resources to meet current and future human needs and desires. As we saw earlier this decade with the collapse of the Soviet economic model, and as we see today with the discredited Asian economic model, free markets will repeatedly win hands down.

One has neither to idealize free markets -- competition is sometimes painful and divisive - nor to believe that there is no useful role for government in modifying market outcomes, in order to understand that there is simply no substitute for resource allocation made under more competitive market environments.

The GATT was the post-War institution in which we most clearly expressed Western faith in the role of an integrated and increasingly open and global market. The GATT System has not let us down. It has served as a catalyst for the greatest expansion of global growth and opportunity the world has ever witnessed. It has succeeded in fostering freer markets through trade agreements, resulting in a 16-fold increase in global trade that has helped lead to a four-fold increase in real global output in the post-War period.

The ascendancy of freer, more open global markets offers great promise for contributing importantly to a world of expanded prosperity and peace, in which many hundreds of millions will be lifted out of poverty and in which the economic aspirations of Americans -- who already enjoy the world's highest living standard -- can be better met.

The Uruguay Round

It was clear to everyone heading into this last Round that the GATT rules were increasingly unable to deal effectively with the full range of issues presented by trade growth and more global markets. Many areas of trade such as intellectual property rights and investment were not covered by GATT rules; GATT disciplines such as agriculture were inadequate, and the dispute settlement mechanism was in many cases ineffective. The old GATT rules also created unequal obligations among different countries, despite the fact that many of the countries that were allowed to keep their markets relatively closed were among the greatest beneficiaries of the

system.

These deficiencies were largely the subject of the Uruguay Round. WTO members, for example, are now required to accept all obligations of the GATT and its corollary agreements, rather than being able to pick and chose among obligations.

The WTO's new dispute settlement system has met our key objectives of a swift, sure and effective mechanism to resolve trade disputes through a rules-oriented system. Going into the Uruguay Round, we consistently argued that disputes took either too long to resolve or remained unresolved at the end of the process due to the ability of countries to block the adoption of a panel report.

The WTO's committee structure and requirement for biennial ministerial meetings have also given us a new opportunity to press for agreements on a much more real-time basis. Given the speed of both economic change and technological advances in communications, it is imperative that we have a WTO structure that can move rapidly.

The Uruguay Round's cuts in tariffs are already helping to boost U.S. exports throughout the world. In the sectors in which duties were eliminated or harmonized, U.S. exports have grown by nearly 34 percent, far outpacing the increase of all U.S. exports.

The Uruguay Round also made important strides in touching on issues that had not been seriously addressed before, such as agriculture, trade and the environment and some investment disciplines. In the areas that had never been covered by GATT rules, such as intellectual property rights and services, the new disciplines of the WTO are essential.

CHALLENGES FOR THE 21ST CENTURY

Now that the results of the Uruguay Round are being implemented, it is time, in part because of the 50th anniversary but also because we are approaching the 21st century, to examine the GATT System and assess the operation of the WTO. There are many challenges facing us that will bear upon the future direction of global trade policy. I want to highlight several of them this morning.

Trade Policy for the Information Age

I think it fair to say that the GATT System is well on its way to entering the 21st century. Just last year we completed a "trifecta" of global agreements that frame the foundation of the 21st century economy: information technology, telecommunications, and financial services. These three agreements, which cover literally tens of trillions of dollars in trade, were recently described by Renato Ruggiero as the equivalent of a major trade Round, so significant is the amount of commerce involved.

The three agreements recognize that we are in an era characterized by intense technological change. A time when product life cycles are measured in months and information and money move around the globe in seconds. A time where we can no longer afford to take 7 years to finish a trade Round, or decades to pass between the time a trade barrier is identified and it is acted on.

The Information Technology Agreement (ITA) will result in the elimination of tariffs on a wide range of global information technology products over the next several years. Covering 93% of global output in this trillion dollar sector, the negotiation of this agreement should help dispel the myth that significant trade liberalization can only occur through comprehensive negotiating Rounds. And we are moving forward with negotiations for an ITA II for expanded product and country coverage.

The Agreement on Basic Telecommunications, which came into effect in January, covers over 95% of world telecom revenue in a \$600-billion industry, and was negotiated among 70 countries -- both developed and developing. It provides U.S. and foreign companies access to local, long-distance and international service through any means of network technology, and ensures that U.S. companies can acquire, establish or hold a significant stake in telecom companies around the world.

This agreement represents a change of profound importance for the telecommunications industry and, potentially, for the GATT. A 60-year tradition of telecommunications monopolies and closed markets has been replaced by market opening, deregulation and competition, reflecting American values of free competition, fair rules and effective enforcement.

In this regard, sixty-five countries bound themselves to enforceable regulatory principles based upon the framework for competition that our Congress enacted in the landmark Telecommunications Act of 1996. Sixty of these countries have agreed to a specific set of regulatory principles that even we did not have one year ago. The global adoption of these pro-competitive principles is binding. Foreign countries are committed to establishing independent regulatory bodies, as well as forbidding anti-competitive practices such as cross-subsidization, and mandating transparency of government regulations and licensing.

And lastly, in December, we secured the multilateral Agreement on Global Financial Services that will open markets to U.S. suppliers of banking, securities, insurance, and financial data services. This agreement covers 95% of the global financial services market, and 102 WTO members now have market-opening commitments in the financial services sectors. The commitments before us encompass \$18 trillion in global securities assets; \$38 trillion in global (domestic) bank lending; and \$2 trillion in worldwide insurance premiums.

A well-functioning financial services industry is key to economic growth in any country, as we have seen in the United States. With the most open financial services market in the world, competition in the financial services industry has delivered lower prices and greater choices and

contributed enormously to prosperity here. The agreement will foster the development of financial markets, especially in emerging economies, helping to lay the foundation for sustained growth. Many countries had already begun the process of financial sector liberalization, but in the past had hesitated to lock in those measures. This agreement locks in that progress and in addition, substantially advances the process of market opening abroad.

Financial Services, together with the ITA and the Telecom Agreement, completes the triple play of global market opening agreements we have reached in the past year. These are the infrastructure of the 21st Century economy-- information, communications, and finance. Yet although these agreements are still warm, we must move ahead, and this means addressing global electronic commerce -- electronic transmissions and especially the Internet.

As the President noted in his speech last week to the Technology '98 Conference, the Internet is the fastest growing social and economic community in history, with 1.5 million new web pages created every day; 65,000 every hour. This phenomenon and the ability of people throughout the world to access it has remarkable possibilities to empower people all over the world. The rapid changes in technology and electronic commerce are something that trading system must recognize and address, and it must do so quickly.

The changes are indeed staggering. The Ford Taurus that you drive today has more computer power than the Apollo 11 that Neil Armstrong took to the moon. The evolution of computers and the electronic commerce that they make possible is likely to revolutionize the way many industries do business. Already it is projected that by 2002, electronic commerce between businesses in the United States alone will exceed \$300 billion. And today, Internet use is already divided rather evenly between the United States and the rest of the world, with global growth in usage at an accelerating rate.

When we look at the global trading system, we see 50 years of effort to undo what governments have done--working to undo government-imposed tariffs and non-tariff barriers to trade. But the world of electronic transmissions is, in trade terms, pristine. Today, no member of the WTO considers electronic transmissions as importations for customs duty purposes. There are no customs duties on cross-border telephone calls, fax messages or computer data links, and this duty-free treatment should include electronic transmissions on the Internet. An agreement to this effect would be an important next step in preparing for the 21st Century economy, and supporting this wholly new form of commerce.

Building Transparent, Open and Competitive Markets

All countries have regulatory systems in place to protect such critical interests as the health, safety, and security of their citizens. These are essential functions of government. They must be sufficiently flexible to identify further areas of needed regulation that require a global response, while ensuring that regulatory systems already in place in fact result in the transparent, pro-competitive markets they are intended to foster. The Asian financial crisis serves as a stark

reminder that genuine transparency is more than the mere publication of rules and regulations.

As we look to potentially new areas of needed regulation, certain basic principles should apply. The role of the WTO is not to demand a system of uniform regulation nor to detract in any respect from the absolute right of governments to establish a particular set of regulatory norms, provided they are neither discriminatory, arbitrary, nor disguised barriers to trade. Rather, the role of the WTO is to ensure that national regulatory practices are fully transparent and not politically directed. This includes the principles of genuine national treatment and due process, commitments to publish and make widely available all regulations, and to ensure that it is those public regulations and not others that are actually applied. Inherent in the need for clear, enforceable rules is also the need for impartial regulators. In short, fundamental fairness must prevail.

There are many areas of regulation that may well require a global response, but let me touch simply on two: competition policy, and bribery and corruption.

It has been a long-held theory among many countries that sound competition law enforcement is crucial to the health of national economies. Indeed, economic globalization has dramatically increased the importance of strong competition policies due to the increased risk of international cartels and the tremendous growth in transnational mergers.

Reaching agreement on competition policy within the WTO will be difficult, given the great disparity between countries on antitrust rules -- both in substance and in the vigilance of their enforcement -- and the fact that almost half of the WTO members do not have competition laws of their own. What is critical, however, is that we develop an international culture of competition and sound antitrust enforcement, built on the basis of shared experience, bilateral cooperation and technical assistance. From that base we should focus on those particular practices and industries where the most egregious anticompetitive practices have been concentrated. If we can do that, we will have a solid foundation from which to build a more comprehensive regulatory framework for competition policy.

Global action is also needed to address the pernicious problem of bribery and corruption. Governments have begun to recognize what many throughout the world have known for decades: bribery subverts and can destroy political processes, it stifles efficient markets and it acts as an invisible tariff on most imports and contracts. The price paid by both the developed and the developing world for the continuation of bribery and corruption is simply not sustainable.

Our most visible efforts to address the problem have taken place in the OECD. In 1994, the OECD adopted a recommendation on combating bribery and in 1996 adopted a recommendation that would prohibit the tax deductibility of bribes in international business transactions. In 1997, an agreement was reached to pursue a Convention that would require governments to put in place criminalization statutes. This agreement was signed by 34 countries and obligates parties to criminalize bribery of foreign public officials in international business

transactions.

In addition, the WTO has established and begun enforcing basic rules that diminish the opportunities for bribery and corruption to take place in, for example, government procurement and customs valuation. Work is already underway to ensure greater transparency in government procurement procedures, an area where bribery is most vexing.

While these are important first steps, much more needs to be done to ensure that strong rules are in place, that those rules are vigorously enforced and that we create a global ethic among government leaders that condemns bribery and corruption in all forms. Once the foundation has been laid through the efforts just mentioned, the WTO should utilize the work of the OECD and begin the process of tackling head on bribery and corruption.

Last, establishing a regulatory framework to address important issues like competition policy, bribery and corruption, and others is necessary, but not sufficient. The real challenge is to ensure that regulatory systems do not create false process, i.e., the appearance of transparency undermined by de facto decisionmaking based on factors divorced from the regulatory framework. The WTO must demand enforceable regulatory transparency at all levels of decision-making if trade concessions are to yield tangible benefits.

The WTO Must Insist on Real Market Access

Another challenge for the WTO is to integrate fully all nations into the global trading system. This challenge extends beyond the accession of new members. We are, of course, right to reach out to the billions of people who live in countries that lie outside of the international trading system. But we also need to look inside and ask how, over decades, some countries have been members of the GATT System, while maintaining home markets essentially hostile to competition.

The Asian financial crisis points to this phenomenon -- successive Rounds which nonetheless fail fundamentally to open major markets, including Japan's. As we look ahead, we need to examine whether GATT or the creation of the WTO should have been more alert to structural and systemic barriers which allowed these circumstances to endure. In this regard, many of the seeds of the Asian financial crisis -- excessively close linkages between government, business, and banks, a lack of transparency and a suppression of competition and market mechanisms -- have their parallel in the trade realm. How can the WTO system deal with structural barriers, the nature of which will invariably reduce or negate the value of trade concessions made?

Other countries, long members of the GATT, have also failed to open up to global competition although the mechanism has differed. India has long maintained balance of payments restrictions on imports, now under challenge. Many African nations have never undertaken the basic bindings -- commitments -- that would open their markets and enable them to grow, and

some have actually increased overall levels of protection, plunging them further into poverty. New trade incentives, anchored in economic reform and embodied in both the Administration's Africa policy and pending legislation should help to alleviate this vicious cycle. Yet, in each of these cases, we must again ask how the GATT System failed to engender more fundamental economic reforms.

Last, our attention must also be focused on bringing new countries into the GATT. China, Russia, and the other countries of the former Soviet Union come to mind. The integration of new members, whose economies are in transition or take alternative form, is complex. In order to ensure that market-based rules are not undermined, these countries should be brought in, but only on the right terms. The accession process must result in significant and enforceable commitments to open markets, to operate transparent, non-discriminatory regulatory systems, and to afford effective national treatment both at the border and within the domestic economy. Our task is difficult, but I believe ultimately attainable.

The Broader Dimensions of Trade

An equally important challenge for the GATT System will be to recognize and address the fundamental relationship between trade and the environment and trade and worker rights.

With respect to the environment, we start from the obvious: both trade and environment are critical. No one is being asked to choose one over the other and no one should. The key is how to manage the demands of the two in a way that protects a rules-based trading system while addressing legitimate environmental concerns.

While some initial progress was made in the Uruguay Round by the establishment of the Committee on Trade and Environment, the Committee's work thus far has proved disappointing. The issues are contentious and the Committee's agenda remains somewhat ill-defined. Yet we must find a way to move forward. Sustainable development is not only beneficial to the world economy, it is its very predicate.

As with the environment, the issue of trade and labor must be addressed or the WTO risks sending the unintended message that there is no link between trade and the welfare of workers. Obviously, this is absurd.

Core labor standards are not a matter of Western values but of internationally recognized human rights. Indeed, many if not most WTO members have agreed to these standards within the ILO.

While the importance of adherence to core labor standards stands on its own substantively, addressing the issue in the trade policy context is also critical to maintaining support for open trade regimes. If the trading system is not seen as contributing to the solution of problems such as exploitative child labor, slave labor or subhuman working conditions, it becomes

all too easy to assume that the trading system is part of the problem.

Yet, as the OECD has noted, more open economies grow faster, and faster growth and rising incomes promote more sustainable development, facilitate adjustment and the efficient redeployment of a society's productive resources, starting first and foremost with its human capital --its workers. Market liberalization (and the rise in incomes it allows) forms part of the solution to low labor standards, since above all else, low labor standards are so often rooted in poverty.

As we know from experience in many countries, market liberalization alone is not enough. The challenge for the GATT System is to build a consensus that open trade should promote not only economic wealth but fundamental worker rights.

Public Confidence and Global Growth

As critical as the issues I have just outlined may be, the lack of public understanding and acceptance of the role of trade in economic life threatens to undermine the GATT System. The next step for the GATT is not only a pro-competitive, forward-leaning trade agenda, but also gaining the support for trade of consumers and workers across the globe.

We are perhaps victims of our own success. Large increases in world trade have fueled a tremendous global expansion of wealth -- the United States is in the 7th year of economic expansion, in large part because of trade. But we have also witnessed here and around the world a growing gap between the "haves" and "have nots."

We can pretend that the rules of international trade are the dominion of elites and businesses, or we can recognize that the pace of change in today's economy -- largely fueled by technology -- is increasingly a source of apprehension and anxiety even among the workers and consumers who are reaping the benefits of global trade. If the global trading system does not factor in this social dimension, the credibility of an open markets policy will be seriously jeopardized.

In the United States there is a growing recognition that an effective economic safety net must exist to respond to economic change that moves faster by the day. Worker training, educational opportunities, health care, adjustment assistance and many other programs must be responsive to the needs of individuals and communities. This is one part of the answer.

To comprehensive domestic education and trade adjustment policies, we must add a sustained effort to improve public understanding about the role of trade in the global economy. As the OECD noted in a report late last year, the combination of government policy and education is critical if supporters of greater market openness are to withstand the backlash from those who are most exposed to the risks of change, and from those who choose to make political hay out of protectionist arguments.

And third, greater transparency of the GATT System itself is necessary. Any alleged secretiveness breeds distrust and misapprehension. The work of the WTO, including its dispute settlement bodies, must become more open and accessible to our domestic publics if we are to build confidence in the international trading system.

An effective safety net, public education, and transparency are necessary components to addressing anxieties in this new age. But, our challenge goes beyond that, and I believe the First Lady framed the task best at the recent World Economic Forum in Davos when she asked:

“How do (governments) create the instruments that are needed ... today to provide the kind of support for the economy at the same time that they provide the ... capacity for their people to be able to thrive in this new economic environment?”

We must find the right balance between government, business, and civil society that permits real competition to flourish, but which answers the social demands of our citizens.

Thank you.